

Service Date: September 22, 2006

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER OF the Application	)	UTILITY DIVISION
By WESTECH ENERGY CORPORATION, a	)	
Common Carrier Pipeline, to Establish Initial	)	DOCKET NO. D2006.7.108
Rates and Charges for Natural Gas	)	ORDER NO. 6774
Transportation Service	)	

**ORDER GRANTING INTERIM INITIAL RATES AND REQUIRING A  
SUBSEQUENT RATE FILING**

**Procedural Background**

1. On July 24, 2006, Westech Energy Corporation (Westech) filed an Application to establish initial rates and charges for transportation of natural gas service through its pipeline in Stillwater County, Montana. In the Application, Westech requests firm service rates of \$90.24 per daily mcf per month and a transportation charge of \$2.16 per mcf. Westech also requests an interruptible transportation rate of \$5.17 per mcf. Westech requests that the Public Service Commission (PSC) grant interim rates.

2. On July 28, 2006, the Montana Public Service Commission (Commission) issued a Notice of Application for Initial Rates and Intervention Deadline. The Montana Consumer Counsel (MCC) filed a Petition for Intervention on August 8, 2006. The Commission granted the MCC's petition on August 21, 2006.

**Discussion and Findings**

3. Westech is a common carrier intending to operate a pipeline whose rates and charges are subject to regulation by the Commission. § 69-13-201, MCA.

4. Westech is constructing the pipeline in Stillwater County, Montana. There is no historical test year on which to base rates.

5. In its Application, Westech estimated a forward-looking revenue requirement of \$1,288.449 per year for each year over a 77-month period. Westech based its estimate

on an average rate base of \$2,578,630 that declined from \$4,300,000 to \$881,169.

Westech included \$250,000 of working capital in the estimated rate base.

6. The Commission establishes rates based on actual test-year values of rate base and expenses as adjusted for known and measurable changes. Westech has not established actual test-year values of its rate base or its expenses.

7. Generally, the depreciable life of pipeline assets is substantially longer than 77 months. For example, in Docket No. D2005.4.48 the Commission allowed straight-line depreciation over 15 years for pipeline assets. Westech has not justified a substantially shorter period for depreciation of its assets.

8. Westech estimated that its cash expenses will average \$463,882 annually. The requested working capital, \$250,000, is nearly 54% of the annual cash expense. Westech has not justified that it needs such a high percentage of its annual cash expense as working capital.

9. Westech based its requested revenue requirement on an assumed interest rate of 7.5%, an assumed capital structure of 25% debt and 75% equity, and a return on equity of 10%.

10. Westech has not shown that the capital structure either is reasonable or exists. Westech has not shown that it is paying an interest rate of 7.5%.

11. Westech has not provided acceptable justification for its claimed return on equity of 10%. In Docket No. D2005.4.48, Order No. 6646c, the Commission approved the use of a two-stage discounted cash flow analysis using a proxy group of companies to calculate the appropriate rate of return on equity for natural gas pipeline companies. Westech has not used this method or justified a departure from the method.

12. Westech has not presented sufficient evidence to support the establishment of permanent rates and charges.

13. Over the next 15 months, Westech should be able to collect the data necessary to present evidence supporting a request for permanent rates in accordance with Commission practice.

14. Westech presented the best data available to establish interim rates.

**ORDER**

IT IS HEREBY ORDERED:

1. Westech is authorized to charge a firm transmission service rate consisting of \$90.24 per mcf per day, per month for the demand charge and \$2.16 per mcf for the commodity charge on an interim basis, subject to refund;
2. Westech is authorized to charge an interruptible transmission rate of \$5.17 per mcf on an interim basis subject to refund; and
3. Westech must file a request for permanent rates as soon as practicable after December 31, 2007, using calendar year 2007 as a test-year.

DONE IN OPEN SESSION at Helena, Montana on the 7<sup>th</sup> day of September, 2006 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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Greg Jergeson, Chairman

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Brad Molnar, Vice Chairman

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Doug Mood, Commissioner

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Robert H. Raney, Commissioner

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Thomas J. Schneider, Commissioner

ATTEST:

Connie Jones  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.